CRONOS GROUP INC.

Unaudited Interim Condensed Consolidated Financial Statements

For the Three Months Ended March 31, 2020 and March 31, 2019

(in thousands of U.S. dollars)

PART I
FINANCIAL INFORMATION

Item 1. Financial statements (Unaudited)

Table of Contents

Cronos Group Inc.

Condensed Consolidated Balance Sheets

As of March 31, 2020 and December 31, 2019

(In thousands of U.S. dollars, except share amounts, unaudited)

	As of	
	March 31, 2020	**December 31, 2019**
Assets		
Current assets		
Cash and cash equivalents	$ 1,128,396	$ 1,199,693
Short-term investments	206,230	306,347
Accounts receivable[1]	3,404	4,638
Other receivables	7,642	7,232
Current portion of loans receivable	3,911	4,664
Prepaids and other assets	11,079	9,395
Inventory	43,118	38,043
Total current assets	1,403,780	1,570,012
Investments in equity accounted investees	1,089	557
Advances to joint ventures	17,079	19,437
Loan receivable, net	54,147	44,967
Property, plant and equipment	154,164	161,809
Right-of-use assets	10,379	6,546
Intangible assets	72,599	72,320
Goodwill	214,689	214,794
Total assets	$ 1,927,926	$ 2,090,442
Liabilities		
Current liabilities		
Accounts payable and other liabilities	$ 34,290	$ 35,301
Current portion of lease obligation	1,057	427
Derivative liabilities	166,176	297,160
Total current liabilities	201,523	332,888
Due to non-controlling interests	1,681	1,844
Lease obligation	9,454	6,680
Total liabilities	$ 212,658	$ 341,412
Commitments and contingencies (Notes 19 and 20)		
Shareholders' equity		
Share capital[2]	$ 563,165	$ 561,165
Additional paid-in capital	25,483	23,234
Retained earnings (accumulated deficit)	1,213,686	1,137,646
Accumulated other comprehensive income (loss)	(85,877)	27,838
Total equity attributable to shareholders of Cronos Group	1,716,457	1,749,883
Non-controlling interests	(1,189)	(853)
Total shareholders' equity	1,715,268	1,749,030
Total liabilities and shareholders' equity	$ 1,927,926	$ 2,090,442

(1) Net of current expected credit loss ("CECL") of $141 as of March 31, 2020 (December 31, 2019 – $136)
(2) Authorized for issuance as of March, 31 2020: unlimited (December 31, 2019 – unlimited). Shares issued as of March 31, 2020: 348,817,472 (as of December 31, 2019: 348,817,472)

See notes to condensed consolidated financial statements.

Cronos Group Inc.

Condensed Consolidated Statements of Net Income and Comprehensive Income (Loss)

For the three months ended March 31, 2020 and 2019

(In thousands of U.S dollars, except share and per share amounts)

	Three months ended March 31,	
	2020	**2019**
Net revenue, before excise taxes	$ 9,344	$ 3,391
Excise taxes	(912)	(387)
Net revenue	8,432	3,004
Cost of sales	6,946	1,449
Inventory write-down	7,962	—
Gross profit (loss)	(6,476)	1,555
Operating expenses		
Sales and marketing	7,112	1,128
Research and development	4,590	1,171
General and administrative	23,759	7,293
Share-based payments	2,436	1,771
Depreciation and amortization	687	318
Total operating expenses	38,584	11,681
Operating loss	(45,060)	(10,126)
Other income (expense)		
Interest income	7,751	2,087
Share of loss from investments in equity accounted investees	(1,172)	(198)
Gain on revaluation of derivative liabilities (Note 11)	113,368	328,216
Financing and transaction costs	—	(22,233)
Other income	794	16,243
Total other income	120,741	324,115
Income before income taxes	75,681	313,989
Income tax recovery (expense)	—	—
Net income	$ 75,681	$ 313,989
Net income (loss) attributable to:		
Cronos Group	$ 76,040	$ 314,092
Non-controlling interests	(359)	(103)
	$ 75,681	$ 313,989
Other comprehensive income (loss)		
Foreign exchange gain (loss) on translation	$ (113,692)	$ 3,898
Total other comprehensive income (loss)	(113,692)	3,898
Comprehensive income (loss)	$ (38,011)	$ 317,887
Comprehensive income (loss) attributable to:		
Cronos Group	$ (37,675)	$ 317,987
Non-controlling interests	(336)	(100)
	$ (38,011)	$ 317,887
Net income per share		
Basic	$ 0.22	1.43
Diluted	0.20	0.33
Weighted average number of outstanding shares		
Basic	348,817,472	218,949,590
Diluted	375,574,354	271,086,575

See notes to unaudited interim consolidated financial statements.

Cronos Group Inc.
Condensed Consolidated Statements of Changes in Equity (Deficit)
For the three months ended March 31, 2020 and 2019
(In thousands of U.S. dollars, except share amounts, unaudited)

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total shareholders' equity (deficit)
Balance as of January 1, 2020	348,817,472	$ 561,165	$ 23,234	$ 1,137,646	$ 27,838	$ (853)	$ 1,749,030
Vesting of options	—	—	1,730	—	—	—	1,730
Vesting of restricted share units	—	—	706	—	—	—	706
Vesting of common shares issued in connection with the use of certain publicity rights in brand development	—	2,000	(187)	—	—	—	1,813
Net income (loss)	—	—	—	76,040	—	(359)	75,681
Other comprehensive income (loss)	—	—	—	—	(113,715)	23	(113,692)
Balance as of March 31, 2020	348,817,472	$ 563,165	$ 25,483	$ 1,213,686	$ (85,877)	$ (1,189)	$ 1,715,268

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total shareholders' equity (deficit)
Balance as of January 1, 2019	$ 178,720,022	$ 175,001	$ 11,263	$ (27,945)	$ (9,870)	$ 100	$ 148,549
Shares issued	149,831,154	248,302	—	—	—	—	248,302
Share issuance costs	—	(3,642)	—	—	—	—	(3,642)
Warrants exercised	4,390,961	1,417	(529)	—	—	—	888
Vesting of options	—	—	1,771	—	—	—	1,771
Options exercised	78,240	262	(261)	(411)	—	—	(410)
Net income (loss)	—	—	—	314,092	—	(103)	313,989
Other comprehensive income	—	—	—	—	3,895	3	3,898
Balance as of March 31, 2019	$ 333,020,377	$ 421,340	$ 12,244	$ 285,736	$ (5,975)	$ —	$ 713,345

See notes to condensed consolidated financial statements.

Cronos Group Inc.

Condensed Consolidated Statements of Cash Flows

For the three months ended March 31, 2020 and 2019

(In thousands of U.S. dollars, except share amounts, unaudited)

	Three months ended March 31,	
	2020	**2019**
Operating activities		
Net income (loss)	$ 75,681	$ 313,989
Items not affecting cash:		
Inventory write-down	7,962	—
Share-based payments	2,436	1,771
Depreciation and amortization	1,162	494
Share of net loss from investments in equity accounted investees	1,172	198
Gain on revaluation of derivative liabilities (Note 11)	(113,368)	(328,216)
Gain on disposal of other investments	(781)	(15,498)
Loss (gain) on unrealized foreign exchange	(412)	51
Provision for doubtful accounts	2,068	—
Non-cash sales and marketing	1,821	—
Other, net	(1,157)	(745)
Net changes in non-cash working capital	(15,482)	14,118
Cash flows used in operating activities	(38,898)	(13,838)
Investing activities		
Purchase of short-term investments	(126,514)	—
Proceeds from disposal of short-term investments	206,847	—
Investments in equity accounted investees	—	(1,658)
Proceeds from sale of other investments	781	19,614
Advances to joint ventures	—	(11,893)
Purchase of property, plant and equipment	(6,411)	(10,119)
Payment of accrued interest on construction loan payable	—	(89)
Purchase of intangible assets	(1,105)	(38)
Advances on loans receivable	(14,512)	—
Cash flows provided (used) in investing activities	59,086	(4,183)
Financing activities		
Increase in bank indebtedness	—	316
Advance from non-controlling interests	—	84
Repayment of lease obligations	(448)	(23)
Proceeds from Altria Investment	—	1,809,556
Proceeds from exercise of warrants and options	—	889
Withholding taxes paid on share appreciation rights	—	(411)
Share issuance costs	—	(3,642)
Repayment of construction loan payable	—	(15,971)
Advance under Credit Facility	—	48,715
Repayment of Credit Facility	—	(48,309)
Cash flows provided (used) by financing activities	(448)	1,791,204
Effect of foreign currency translation on cash and cash equivalents	(91,037)	14,421
Increase (decrease) in cash and cash equivalents	(71,297)	1,787,604
Cash and cash equivalents, beginning of period	1,199,693	23,927
Cash and cash equivalents, end of period	$ 1,128,396	$ 1,811,531
Supplemental cash flow information		
Interest paid	7	507
Interest received	7,758	—

See notes to condensed consolidated financial statements.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

1. Background

Cronos Group Inc. (the "Cronos Group" or the "Company") is a corporation incorporated on August 21, 2012 under the Business Corporations Act (Ontario) with principal executive offices at 720 King Street West, Suite 320, Toronto, Ontario, M5V 2T3. The Company's common shares are currently listed on the Toronto Stock Exchange ("TSX") and Nasdaq Global Market ("Nasdaq") under the ticker symbol "CRON."

Cronos Group is an innovative global cannabinoid company, with international production and distribution across five continents. The Company is committed to building disruptive intellectual property by advancing cannabis research, technology and product development and is building an iconic brand portfolio. Cronos Group's brand portfolio includes PEACE NATURALS™, a global wellness platform; two adult-use brands, COVE™ and Spinach™; and two U.S hemp-derived consumer products brands, Lord Jones™ and PEACE+™.

Cronos Group has established four strategic joint ventures in Canada, Israel, and Colombia. One of these strategic joint ventures, Cronos Israel (as defined herein) is consolidated for financial reporting purposes. The Company also holds approximately 31% of the issued capital of Cronos Australia Limited ("Cronos Australia") and accounts for its investment in Cronos Australia under the equity method of accounting. For additional discussion regarding the joint ventures and strategic investment, see Note 6.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The interim condensed consolidated financial statements of Cronos Group are unaudited. They have been prepared in accordance with U.S generally accepted accounting principles for interim financial information and with applicable rules and regulations of the Securities and Exchange Commission relating to interim financial statements. Accordingly, they do not include all of the information and footnotes required by U.S generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for any other quarterly period.

These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in its Annual Report on Form 10-K/A for the year ended December 31, 2019 (the "Annual Financial Statements").

(b) Basis of Consolidation

The accompanying financial statements include the accounts of the Company, and all entities in which the Company has a controlling voting interest and/or is the primary beneficiary of a variable interest as of and for the period presented. The Company consolidates the financial results of the following entities, which the Company controls:

Subsidiaries	Jurisdiction of Incorporation	Incorporation Date	Ownership Interest (ii)
Cronos Israel G.S. Cultivations Ltd. (i)	Israel	February 4, 2018	70%
Cronos Israel G.S. Manufacturing Ltd. (i)	Israel	September 4, 2018	90%
Cronos Israel G.S. Store Ltd. (i)	Israel	June 28, 2018	90%
Cronos Israel G.S. Pharmacies Ltd. (i)	Israel	February 15, 2018	90%

(i) These Israeli entities are collectively referred to as "Cronos Israel."

(ii) "Ownership interest" is defined as the proportionate share of net income to which the Company is entitled; equity interest may differ from ownership interest as described herein.

In the condensed consolidated statements of net income (loss) and comprehensive income (loss), the net income (loss) and comprehensive income (loss) are attributed to the equity holders of the Company and to the non-controlling interests. Non-controlling interests in the equity of Cronos Israel are presented separately in the shareholders' equity (deficit) section of the condensed consolidated balance sheets and condensed consolidated statements of changes in equity (deficit). All intercompany transactions and balances are eliminated upon consolidation.

3. New Accounting Pronouncements

(a) Adoption of new accounting pronouncements

On January 1, 2020, the Company adopted ASU No. 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820) ("ASU No. 2018-13"). ASU No. 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. The adoption of this standard was applied prospectively and did not have a material impact on the Company's condensed consolidated financial statements.

On January 1, 2020, the Company adopted ASU No. 2018-15, Intangibles – Goodwill and Other Internal-use-software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU No. 2018-15"). ASU No. 2018-15 amends current guidance to align the accounting for costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing costs associated with developing or obtaining internal-use software. The guidance in ASU No. 2018-15 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The adoption of this standard was applied prospectively and did not have a material impact on the Company's condensed consolidated financial statements.

On January 1, 2020, the Company adopted ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment ("ASU No. 2017-04"). ASU No. 2017-04 eliminates step 2 from the goodwill impairment test and instead requires an entity to measure the impairment of goodwill assigned to a reporting unit if the carrying value of assets and liabilities assigned to the reporting unit, including goodwill, exceeds the reporting unit's fair value. The guidance in ASU No. 2017-04 is effective for annual and interim goodwill tests completed by the Company beginning on January 1, 2020. The adoption of this standard was applied prospectively and the Company will follow a one-step model for goodwill impairment.

(b) New accounting pronouncements not yet adopted

In January 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815). ASU No. 2020-01 clarifies the interaction of accounting for the transition into and out of the equity method. The new standard also clarifies the accounting for measuring certain purchased options and forward contracts to acquire investments. The guidance in ASU No. 2020-01 is effective for annual and interim periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the effect of the adoption of this ASU, but anticipates that the adoption will not have a material impact on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU No. 2019-12"). ASU No. 2019-12 eliminates certain exceptions and simplifies the application of U.S. GAAP-related to changes in enacted tax laws or rates and employee stock option plans. ASU No. 2019-12 is effective for annual and interim periods beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the effect of the adoption of this ASU, but anticipates that the adoption will not have a material impact on its condensed consolidated financial statements.

4. Revenues from Contracts with Customers

Cronos Group disaggregates net revenues based on product type. For further discussion, see Note 18. Receivables were $3,404 as of March 31, 2020 (December 31, 2019 – $4,638). The Company recorded a current expected credit loss allowance of $141 as of March 31, 2020 (December 31, 2019 – $136).

Cronos Group offers discounts to customers for prompt payment and calculates cash discounts as a percentage of the list price based on historical experience and agreed-upon payment terms. Cronos Group records an allowance for cash discounts, which is included as a contra-asset against receivables on the Company's condensed consolidated balance sheets.

Revenue is measured net of returns. As a result, the Company is required to estimate the amount of returns based on the historical data by customer and product type, adjusted for forward-looking information. This is recorded as a provision against accounts receivable on the Company's consolidated balance sheets. The Company estimates sales returns based principally on historical volume and return rates, as a reduction to revenues. The difference between actual sales and estimated sales returns is recorded in the period in which the actual amounts become known. These differences, if any, have not had a material impact on the Company's condensed consolidated financial statements.

Upon return, products can be extracted from dried cannabis, resold, or destroyed depending on the nature of the product. The Company has assessed that the amount recoverable for the three months ended March 31, 2020 is immaterial.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

5. Inventory

Inventory is comprised of the following items:

	As of	
	March 31, 2020	December 31, 2019
Raw materials	$ 4,198	$ 2,469
Work-in-progress – dry cannabis	14,799	11,538
Work-in-progress – cannabis extracts	17,517	17,975
Finished goods – dry cannabis	3,312	1,798
Finished goods – cannabis extracts	2,564	2,624
Supplies and consumables	728	1,639
Total	$ 43,118	$ 38,043

Inventory is written down for any obsolescence or when the net realizable value of inventory is less than the carrying value. For the three months ended March 31, 2020, the Company recorded write-downs related to inventory of $7,962.

There were no inventory write-downs for the three months ended March 31, 2019.

6. Investments and Advances to Joint Ventures

Variable Interest Entities

The Company holds variable interests in Cronos Growing Company Inc. (“Cronos GrowCo”), Natuera S.à.r.l (“Natuera”) and MedMen Canada Inc. (“MedMen Canada”).

Cronos GrowCo is a joint venture incorporated under the Canada Business Corporations Act (“CBCA”) on June 14, 2018 with the objective of building a cannabis production greenhouse, applying for cannabis licenses under the Cannabis Act (Canada), and growing, cultivating, extracting, producing and selling cannabis in accordance with such licenses. Cronos Group holds variable interests in Cronos GrowCo through its ownership of 50% of Cronos GrowCo’s common shares and senior secured debt in Cronos GrowCo. The Company has also agreed to purchase a minimum amount of Cronos GrowCo’s cannabis product annually, subject to Cronos GrowCo’s receipt of all applicable licenses and permits. Cronos GrowCo’s economic performance is driven by the quantity and strains of cannabis grown. The joint venture partners mutually determine the quantity and strains of cannabis grown.

MedMen Canada is a joint venture incorporated under the CBCA on March 13, 2018, with the objective of the retail sale and marketing of cannabis products in Canada. MedMen Canada holds the exclusive license to the MedMen brand in Canada for a minimum term of 20 years. Cronos holds variable interests in MedMen Canada through its ownership of 50% of MedMen Canada’s common shares and other subordinated debt in the entity. MedMen Canada’s economic performance is driven by the quantity and strains of cannabis sold. Subject to applicable law, the joint venture partners mutually determine the quantity and strains of cannabis to be sold in MedMen Canada’s retail stores, if and when stores are opened.

Natuera is a joint venture registered in Luxembourg with the objective of cultivating and commercializing medical cannabis to serve the export market. Cronos holds variable interests in Natuera through its ownership of 50% of Natuera’s common shares and other debt in the entity. Natuera’s economic performance is driven by the quantity and strains of cannabis to be grown. The joint venture partners mutually determine the quantity and strains of cannabis grown.

The Company’s investments in Cronos GrowCo, Natuera and MedMen Canada are exposed to economic variability from each entity’s performance, however the Company does not consolidate the entities as it does not have the power to direct the activities that most significantly impact the joint ventures’ economic performance; thus, Cronos Group is not considered the primary beneficiary of the entity. These investments are accounted for as equity method investments classified as Investments in Equity Accounted Investees in the consolidated balance sheets.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(a) Net investment in equity accounted investees

A reconciliation of the carrying amount of the investments in associates and joint ventures is as follows:

		Carrying Amount	
	Ownership %	March 31, 2020	December 31, 2019
Whistler Medicinal Marijuana Company ("Whistler")[(i)]	N/A	$ —	$ —
Cronos Australia[(ii)]	31%	—	(346)
Cronos GrowCo	50%	1,089	1,501
MedMen Canada	50%	—	—
Natuera	50%	—	(598)
		$ 1,089	$ 557

(i) Whistler was incorporated in British Columbia, Canada and is a license holder under the Cannabis Act (Canada) with production facilities in British Columbia, Canada. Although the Company held less than 20% of the ownership interest and voting control of Whistler, the Company had the ability to exercise significant influence through its power to elect board members. The Company fully divested its investment in Whistler during the three months ended March 31, 2019.

(ii) On October 25, 2019, Cronos Australia issued 40 million new shares in an initial public offering at an offering price of A$0.50 per share. Cronos' ownership in Cronos Australia decreased from 50% to 31% on November 7, 2019 when Cronos Australia began trading on the Australian Securities Exchange. This resulted in a reconsideration event, which required the reassessment of the Company's VIE conclusion. Upon reconsideration, the Company determined that the entity was no longer a VIE as of December 31, 2019 and is now reported under the equity method.

The Company's share of net earnings (losses) from equity investments accounted for under the equity method of accounting:

	For the three months ended March 31,	
	2020	2019
Whistler	$ —	$ 29
Cronos Australia[(i)]	—	(244)
Cronos GrowCo	(311)	11
MedMen Canada	—	6
Natuera[(ii)]	(861)	—
	$ (1,172)	$ (198)

(i) The Company's share of accumulated net losses in excess of its equity investment and advances in Cronos Australia were $515 for the three months ended March 31, 2020 (March 31, 2019 – $nil).

(ii) The Company's share of accumulated net losses in excess of its equity investment in Natuera has been applied as a loss allowance on the loan receivable. See Note 6(b) and Note 10.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(b) Advances to Joint Venture

	MedMen Canada (i)	Cronos GrowCo	Cronos Australia (ii)	Natuera	Total
As of January 1, 2020	$ 471	$ 18,966	$ —	$ —	$ 19,437
Credit loss allowance	—	(917)	—	—	(917)
Effect from foreign exchange	(36)	(1,405)	—	—	(1,441)
As of March 31, 2020	$ 435	$ 16,644	$ —	$ —	$ 17,079
As of January 1, 2019	1,244	2,970	475	—	4,689
Advances (repayment)	(852)	15,494	274	219	15,135
Advances to joint ventures recovered from (applied to) carrying amount of investments	35	22	(779)	(224)	(946)
Effect from foreign exchange	44	480	30	5	559
As of December 31, 2019	$ 471	$ 18,966	$ —	$ —	$ 19,437

(i) Advance is unsecured, non-interest bearing, and there are no terms of repayment.

(ii) A$1,500 is governed by an unsecured loan bearing interest at a rate of 12% per annum, calculated and compounded daily, in arrears, on the amounts advanced from the date of each advance. The loan is due on January 1, 2022. If the loan is overdue, the outstanding amount bears interest at an additional 2% per annum.

7. Other Investments

Other investments consist of investments in common shares and warrants of several companies in the cannabis industry. As of March 31, 2020, the Company did not hold any other investments.

During the three months ended March 31, 2020, in respect to one of two milestones achieved related to the Whistler transaction described below, the Company received 578,101 shares of Aurora Cannabis Inc. (“Aurora”). The Company subsequently sold all of the Aurora shares on March 6, 2020 for gross proceeds of $781 recorded as an other item in other income (expenses). The Company expects to further receive Aurora common shares upon the satisfaction of one milestone remaining, which has not been recognized in these condensed consolidated financial statements. The exact number of Aurora common shares to be issued to the Company following the satisfaction of each such milestone will be determined in reference to the five-day volume weighted average price of Aurora common shares immediately prior to the achievement of the applicable milestone.

On March 4, 2019, the Company sold all 2,563 shares of Whistler, representing approximately 19.0% of Whistler's issued and outstanding common shares, to Aurora, in connection with Aurora's acquisition of Whistler (the "Whistler Transaction"). As a result of the closing of the Whistler Transaction, the Company received 2,524,341 Aurora common shares. During the three months ended March 31, 2019, The Company sold all 2,524,341 common shares of Aurora, for gross proceeds of $19,259 recorded as an other item in other income (expenses).

During the three months ended March 31, 2019, the Company sold all remaining 11,062 common shares of Canopy Growth Corporation (“Canopy”) for gross proceeds of $355. The gains and losses on the Canopy investment were reclassified from fair value through other comprehensive income to fair value through net income.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

8. Accumulated Other Comprehensive Income (Loss)

The following is a continuity schedule of accumulated other comprehensive income (loss):

	Three months ended March 31,	
	2020	2019
Net unrealized gain (loss) on revaluation and disposal of other investments		
Balance at January 1	$ 5	$ 5
Cumulative effect from adoption of ASU 2016-01	—	—
Balance as of March 31	5	5
Net foreign exchange gain (loss) on translation		
Balance at January 1	27,833	(9,875)
Net unrealized (loss) gain	(113,715)	3,895
Balance as of March 31	(85,882)	(5,980)
Total accumulated other comprehensive income (loss)	$ (85,877)	$ (5,975)

9. Leases

The Company has entered into leases primarily for the land-use rights, office premises and equipment used in the production of cannabis and related products. The Company's leases have terms which range from three years to nine years, excluding land use rights, which generally extend over 15 years. These leases often include options to extend the term of the lease for up to 10 years. When it is reasonably certain that the option will be exercised, the impact of the option is included in the lease term for purposes of determining total future lease payments.

Operating leases greater than one year are included in right-of-use assets and operating lease liabilities. Finance leases are included in property, plant and equipment on the Company's consolidated balance sheet.

During the period, the Company entered into a new operating lease for office premises which is included within the lease liability and right of use asset on the condensed consolidated balance sheet.

The Company's finance leases were not material as of March 31, 2020 and December 31, 2019.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

10. Loans Receivable, net

	As of	
	March 31, 2020	December 31, 2019
Current portion		
Natuera Series A loan (i)	$ 3,200	$ 4,575
Cronos GrowCo Credit Facility (ii)	711	—
Add: Accrued interest	—	89
Total current portion of loans receivable	3,911	4,664
Long term portion		
Cronos GrowCo Credit Facility (ii)	41,557	31,678
2645485 Ontario Inc. (**"Mucci"**) Promissory Note (iii)	11,394	12,587
Add: Accrued interest	1,196	702
Total long term portion of loans receivable	54,147	44,967
Total loans receivable	$ 58,058	$ 49,631

(i) On September 27, 2019, the Company entered into a master loan agreement (the "Series A Loan") for $4,575 with Natuera with effect as of August 29, 2019. The total aggregate principal amount of the Series A Loan is $9,150, of which the Company has committed to fund 50% and its joint venture partner has committed to fund the remaining 50%. Outstanding principal amounts bear interest at a fixed annual rate of 5.67% with a maturity date of August 29, 2020. As of March 31, 2020, accrued interest is recorded in other receivables.

For the three months ended March 31, 2020, a loss allowance of $1,439 was recorded against the Natuera Series A loan related to the Company's share of net loss from Natuera in excess of the carrying value of the equity method investment. Refer to Note 6.

(ii) On August 23, 2019, the Company entered into a credit agreement with Cronos GrowCo in respect of a C$100,000 ($71,114) secured non-revolving term loan credit facility (the "GrowCo Credit Facility"). The GrowCo Credit Facility will mature on March 31, 2031 and will bear interest at varying rates based on the Canadian prime rate as announced by the Bank of Montreal. Interest began to accrue as of the closing date of the GrowCo Credit Facility and is payable on a quarterly basis until maturity, except that any interest accrued prior to March 31, 2021 will be payable not later than December 31, 2021. Repayment of principal will be made on a quarterly basis commencing on March 31, 2021. The credit facility is secured by substantially all present and after acquired property of Cronos GrowCo and its subsidiaries. Mucci, the other 50% shareholder of Cronos GrowCo, has provided a limited recourse guarantee in favor of Cronos GrowCo, secured by Mucci's shares in Cronos GrowCo. As of March 31, 2020, Cronos GrowCo had drawn C$60,650 ($43,131) from the Cronos GrowCo Credit Facility.

For the three months ended March 31, 2020, a current expected credit loss allowance of $903 was recorded against the GrowCo Facility.

(iii) On June 28, 2019, the Company entered into a promissory note receivable agreement (the "Mucci Promissory Note") for C$16,350 ($11,627) with Mucci. The outstanding principal amount of the Mucci Promissory Note bears interest at 3.95% annually and is due within 90 days of demand. The Company does not intend to demand the loan within 12 months. Interest accrued under the Mucci Promissory Note until July 1, 2021 is payable by way of capitalization on the principal amount and interest thereafter must be paid in cash on a quarterly basis. The Mucci Promissory Note is secured by a general security agreement covering all the assets of Mucci.

For the three months ended March 31, 2020, a current expected credit loss allowance of $243 has been recorded against the Mucci loan.

11. Derivative Liabilities

On March 8, 2019, the Company closed the previously announced investment in the Company (the "Altria Investment") by Altria, pursuant to a subscription agreement dated December 7, 2018. As of the closing date of the Altria Investment, the Altria Investment consisted of 149,831,154 common shares of the Company as of the closing date, issued to a wholly owned subsidiary of Altria and one warrant of the Company (the "Altria Warrant"), refer to Note 15(a), issued to a wholly owned subsidiary of Altria. As of the closing date of the Altria Investment, Altria beneficially held an approximate 45% ownership interest in the Company (calculated on a non-diluted basis). As summarized in this note, if exercised in full on such date, the exercise of the Altria Warrant would have resulted in Altria holding a total ownership interest in the Company of approximately 55% (calculated on a non-diluted basis). Pursuant to the investor rights agreement between the Company and Altria, entered into in connection with the closing of the Altria Investment (the "Investor Rights Agreement"), the Company granted Altria certain rights, among others, summarized in this note.

The summaries below are qualified entirely by the terms and conditions fully set out in the Investor Rights Agreement and the Altria Warrant, as applicable.

a. The Altria Warrant entitles the holder, subject to certain qualifications and limitations, to subscribe for and purchase up to an additional 10% of the common shares of Cronos (approximately 77.5 million common shares at March 31, 2020) at a per share exercise price of C$19.00 which expires on March 8, 2023.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

b. The Company granted to Altria, subject to certain qualifications and limitations, upon the occurrence of certain issuances of common shares of the Company executed by the Company (including issuances pursuant to the R&D partnership with Ginkgo Bioworks Inc. (“Ginkgo”) (the “Ginkgo Agreement”), which is discussed in Note 19(a)(i) below, the right to purchase up to such number of common shares of the Company in order to maintain their ownership percentage of issued and outstanding common shares of the Company immediately preceding any issuance of shares by the Company (“Pre-emptive Rights”), at the same price per common share of the Company at which the common shares are sold in the relevant issuance. The price per common share of the Company to be paid by Altria pursuant to its exercise of its Pre-emptive Rights related to the Ginkgo Agreement will be C$16.25 per common share. These rights may not be exercised if Altria’s ownership percentage of the issued and outstanding shares of the Company falls below 20%.

c. In addition to (and without duplication of) the Pre-emptive Rights, the Company granted to Altria, subject to certain qualifications and limitations, the right to subscribe for common shares of the Company issuable in connection with the exercise, conversion or exchange of convertible securities of the Company issued prior to March 8, 2019 or thereafter (excluding any convertible securities of the Company owned by Altria or any of its subsidiaries), a share incentive plan of the Company, the exercise of any right granted by the Company pro rata to all shareholders of the Company to purchase additional common shares and/or securities of the Company, bona fide bank debt, equipment financing or non-equity interim financing transactions that contemplate an equity component or bona fide acquisitions (including acquisitions of assets or rights under a license or otherwise), mergers or similar business combination transactions or joint ventures involving the Company in order to maintain their ownership percentage of issued and outstanding common shares of the Company immediately preceding any such transactions (“Top-up Rights”).

The price per common share to be paid by Altria pursuant to the exercise of its Top-up Rights will be, subject to certain limited exceptions, the 10-day volume-weighted average price of the common shares of the Company on the TSX for the ten full days preceding such exercise by Altria; provided that the price per common share of the Company to be paid by Altria pursuant to the exercise of its Top-up Rights in connection with the issuance of common shares of the Company pursuant to the exercise of options or warrants that were outstanding as of March 8, 2019 will be C$16.25 per common share without any set off, counterclaim, deduction, or withholding. These rights may not be exercised if Altria’s ownership percentage of the issued and outstanding shares of the Company falls below 20%. The Altria Warrant, Pre-emptive Rights, and fixed price Top-up Rights have been classified as derivative liabilities; related transaction costs of $22,355 were expensed as financing costs during the year ended December 31, 2019.

A reconciliation of the carrying amounts of the derivative liability is presented below:

	January 1, 2020	(Gain) / Loss on revaluation	Exercise of Rights	Effect from foreign exchange	As of March 31, 2020
(a) Altria Warrant	$ 234,428	$ (88,104)	$ —	$ (13,958)	$ 132,366
(b) Pre-emptive Rights	12,787	1,315	—	(1,032)	13,070
(c) Top-up Rights	49,945	(26,579)	—	(2,626)	20,740
	$ 297,160	$ (113,368)	$ —	$ (17,616)	$ 166,176

Fluctuations in the Company’s share price are a primary driver for the changes in the derivative valuations during each reporting period. As the share price decreases for each of the related derivative instruments, the liability of the instrument generally decreases. Share price is one of the significant observable inputs used in the fair value measurement of each of the Company’s derivative instruments. During the period ended March 31, 2020, the Company’s share price decreased from December 31, 2019 resulting in the gain on revaluation of $113,368.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

The fair values of the derivative liabilities were determined using the Black-Scholes pricing model as of December 31, 2019 and March 31, 2020, applying the following inputs:

	December 31, 2019			As of March 31, 2020		
	Altria Warrant	Pre-emptive Rights	Top-up Rights	Altria Warrant	Pre-emptive Rights	Top-up Rights
Share price at valuation date (per share in C$)	$9.97	$9.97	$9.97	$7.99	$7.99	$7.99
Subscription price (per share in C$)	$19.00	$16.25	$16.25	$19.00	$16.25	$16.25
Weighted average risk-free interest rate (i)	1.69%	1.73%	1.71%	0.49%	0.44%	0.36%
Weighted average expected life (in years) (ii)	3.18	1.25	1.66	2.93	2.25	1.29
Expected annualized volatility (iii)	82%	82%	82%	80%	80%	80%
Expected dividend yield	—%	—%	—%	—%	—%	—%

(i) The risk-free interest rate was based on Bank of Canada government treasury bills and bonds with a remaining term equal to the expected life of the derivative liabilities. The risk-free interest rate uses a range of approximately 0.21% to 0.62% as of March 31, 2020 (December 31, 2019 – 1.66% to 1.73%) for the Pre-emptive rights and Top-up rights.

(ii) The expected life in years represents the period of time that the derivative liabilities are expected to be outstanding. The expected life of the Pre-emptive Rights and Top-up Rights is determined based on the expected term of the underlying options, warrants, and shares, to which the Pre-emptive Rights and Top-up Rights are linked. The expected life uses a range of approximately 0.25 year to 5.75 years as of March 31, 2020 (December 31, 2019 – 0.25 year to 6 years).

(iii) Volatility was based on an equally weighted blended historical volatility level of the underlying equity securities of the Company and peer companies.

The following table quantifies each of the significant inputs described above and provides a sensitivity analysis of the impact on the reported values of the derivative liabilities. The sensitivity analysis for each significant input is performed by assuming a 10% decrease in the input while other significant inputs remain constant at management's best estimate as of the respective dates. A decrease in the inputs noted below would cause a decrease in derivative liability and as of March 31, 2020, there would be an equal but opposite impact on net income (loss).

	Decrease as of December 31, 2019			Decrease as of March 31, 2020		
	Altria Warrant	Pre-emptive Rights	Top-up Rights	Altria Warrant	Pre-emptive Rights	Top-up Rights
Share price	$ 36,436	$ 2,743	$ 9,577	$ 22,448	$ 2,385	$ 4,550
Weighted average expected life	17,471	2,366	2,178	12,478	1,351	1,439
Expected annualized volatility	33,343	2,180	7,714	24,031	2,329	4,331

These inputs are classified in Level 3 on the fair value hierarchy and are subject to volatility and several factors outside of the Company's control, which could significantly affect the fair value of these derivative liabilities in future periods.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

12. Property, Plant and Equipment

Property, plant and equipment, net consisted of the following

	As of	
	March 31, 2020	December 31, 2019
Cost		
Land	$ 3,509	$ 3,727
Building	142,038	150,324
Furniture and equipment	10,457	10,156
Computer equipment	684	687
Leasehold improvements	2,787	2,789
Construction in progress	5,800	3,569
Less: accumulated depreciation	(11,111)	(9,443)
Total	$ 154,164	$ 161,809

Depreciation expense included in cost of sales relating to manufacturing equipment and production facilities for the three months ended March 31, 2020 was $223 (March 31, 2019 – $176). Depreciation expense included in operating expenses related to general office space and equipment for three months ended March 31, 2020 was $507 (March 31, 2019 – $169). The remaining depreciation is included in inventory.

For the three months ended March 31, 2020 there is $nil (March 31, 2019 – $89) of capitalized interest included in construction in progress.

13. Intangible Assets and Goodwill

(a) Intangible Assets

Intangible assets are comprised of the following items:

		As of March 31, 2020		
	Weighted Average Amortization Period (in years)	Cost	Accumulated Amortization	Net
Software (i)	N/A	$ 478	$ (238)	$ 240
ERP system (ii)	5	983	—	983
Health Canada licenses	17	7,970	(1,014)	6,956
Lord Jones™ brand	N/A	64,000	—	64,000
Trademarks	N/A	138	—	138
Israeli Codes (iii)	25	290	(8)	282
		$ 73,859	$ (1,260)	$ 72,599

(i) Software amortizes using a double declining method.

(ii) During the three months ended March 31, 2020, the Company capitalized costs for the new ERP system. As at March 31, 2020, the system is not yet available for use, resulting in no amortization being recorded against the asset.

(iii) The preliminary licenses granted to Kibbutz Gan Shmuel (the Cronos Israel joint venture partner) by the Medical Cannabis Unit of the Israeli Ministry of Health in early 2017 (the "Israeli Codes") were transferred by non-controlling interests to Cronos Israel in exchange for their equity interests in the Cronos Israel entities specified above.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

		As of December 31, 2019		
	Weighted Average Amortization Period (in years)	Cost	Accumulated Amortization	Net
Software (i)	N/A	$ 541	$ (202)	$ 339
Health Canada licenses	17	8,627	(976)	7,651
Lord Jones™ brand	N/A	64,000	—	64,000
Trademarks	N/A	36	—	36
Israeli Codes (ii)	25	298	(4)	294
		$ 73,502	$ (1,182)	$ 72,320

(i) Software amortizes using a double declining method.

(ii) The preliminary licenses granted to Kibbutz Gan Shmuel (the Cronos Israel joint venture partner) by the Medical Cannabis Unit of the Israeli Ministry of Health in early 2017 (the "Israeli Codes") were transferred by non-controlling interests to Cronos Israel in exchange for their equity interests in the Cronos Israel entities specified above.

The aggregate amortization for the three months ended March 31, 2020 was $180 (March 31, 2019 – $149). Intangible asset additions in 2020 included the ERP system for $983. There was $67 related to disposals of software in during three months ended March 31, 2020.

The amortization expense for the next five years on intangible assets in use is estimated to be as follows: 2021 – $609; 2022 – $553; 2023: $509; 2024 – $481; 2025 – $472.

(b) Goodwill

	As of December 31, 2019	Additions	Effect of foreign exchange	As of March 31, 2020
OGBC	$ 302	$ —	$ (23)	$ 279
Peace Naturals	1,078	—	(82)	996
Redwood (as defined herein)	213,414	—	—	213,414
	$ 214,794	$ —	$ (105)	$ 214,689

14. General and Administrative Expenses

General and administrative expense are comprised of the following items:

	Three months ended March 31,	
	2020	2019
Salaries and wages	$ 7,466	$ 1,994
Professional and consulting	5,586	2,203
Office and general	3,075	2,901
Internal review costs related to restatement of 2019 interim financial statements	4,407	—
Other	3,225	195
Total	$ 23,759	$ 7,293

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

15. Share-based Payments

(a) Warrants

The following is a summary of the changes in warrants during the three months ended March 31, 2020 and 2019:

	Weighted average exercise price (C$)	Number of warrants
Balance as of January 1, 2020	$ 0.26	18,066,662
Exercise of warrants	—	—
Expiry of warrants	—	—
Balance as of March 31, 2020	$ 0.26	18,066,662
Balance as of January 1, 2019	$ 0.26	25,457,623
Exercise of warrants	0.27	(4,390,961)
Expiry of warrants	—	—
Balance at March 31, 2019	$ 0.26	21,066,662

As of March 31, 2020, the Company had outstanding warrants as follows. For a description of the Altria Warrant, see Note 11.

Grant Date	Expiry date	Weighted average exercise price (C$)	Number of warrants
October 8 – 28, 2015	October 8 – 28, 2020	$ 0.31	2,976,610
May 13 – 27, 2016	May 13 – 27, 2021	0.25	15,090,052
As of March 31, 2020		$ 0.26	18,066,662

(b) Stock options

(i) Stock option plans

The Company adopted an amended and restated stock option plan dated May 26, 2015 (the “2015 Stock Option Plan”) which was approved by shareholders of the Company at the annual general meeting of shareholders held on June 28, 2017. The 2015 Stock Option Plan allowed the Board to award options to purchase shares to directors, officers, key employees and service providers of the Company. As of June 28, 2018, no further awards will be granted under the 2015 Stock Option Plan; however, shares may be purchased via option exercise by the holders of any outstanding options previously issued under the 2015 Stock Option Plan. As of March 31, 2020, options to purchase 12,319,230 Company common shares were outstanding under the 2015 Stock Option Plan.

On June 28, 2018, the shareholders of the Company approved a new stock option plan (the “2018 Stock Option Plan”) under the terms and valuation methods detailed in the Annual Financial Statements. Upon approval of the 2020 Omnibus Plan (as defined below) by the shareholders of the Company, no further awards will be granted under the 2018 Stock Option Plan; however, shares may be purchased via option exercise by the holders of any outstanding options previously issued under the 2018 Stock Option Plan. As of March 31, 2020, options to purchase 1,787,383 Company common shares were outstanding under the 2018 Stock Option Plan.

On March 29, 2020, the Company’s Board of Directors adopted a new omnibus equity incentive plan (the “2020 Omnibus Plan”), subject to approval by the shareholders of the Company. As of March 31, 2020, no grants have been made under the 2020 Omnibus Plan.

For the three months ended March 31, 2020, the total stock-based compensation expense associated with the stock option plans was $1,730 (March 31, 2019 – $1,771).

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(ii) Summary of changes

The following is a summary of the changes during the three months ended March 31, 2020 and 2019:

	Weighted average exercise price (C$)	Number of options	Weighted average remaining contractual term (years)
Balance as of January 1, 2020	$ 4.84	14,149,502	2.56
Cancellation, forfeiture and expiry of options	17.17	(42,889)	
Balance as of March 31, 2020	$ 4.80	14,106,613	2.06
Exercisable at March 31, 2020	3.11	9,783,544	1.66
Balance as of January 1, 2019	$ 2.99	12,902,995	3.35
Issuance of options	24.75	51,830	
Exercise of options	5.60	(125,715)	
Cancellation, forfeiture and expiry of options	1.40	(2,500)	
Balance at March 31, 2019	$ 3.06	12,826,610	3.11
Exercisable at March 31, 2019	2.28	5,838,386	2.91

No stock options were exercised during the three months ended March 31, 2020. The weighted average share price at the dates the options were exercised during the three months ended March 31, 2019 was C$26.12 per share.

(iii) Fair value of options issued

The fair value of the options issued was determined using the Black-Scholes option pricing model, using the following inputs:

	For the three months ended March 31, 2019
Share price at grant date (per share)	$24.75
Exercise price (per option)	$24.75
Risk-free interest rate	1.51%
Expected life of options (in years)	5
Expected annualized volatility	80%
Expected dividend yield	—%
Weighted average Black-Scholes value at grant date (per option)	$15.91
Forfeiture rate	—%

No stock options were granted under the 2018 Stock Option Plan during the three months ended March 31, 2020.

The expected life of the awards represents the period of time stock options are expected to be outstanding and is estimated considering vesting terms and employees' and non-employees' historical exercise and post-vesting employment termination behavior. Volatility was estimated by using the historical volatility of the Company, adjusted for the Company's expectation of volatility going forward. The risk-free interest rate was based on the Bank of Canada government bonds with a remaining term equal to the expected life of the options at the grant date.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(c) Restricted share units

On September 5, 2019, the Company issued an aggregate of 732,972 restricted stock units ("RSUs") to certain employees in connection with the acquisition of four Redwood Holding Group, LLC subsidiaries (collectively, "Redwood") and pursuant to Employment Inducement Award Plan. Each RSU entitles the holder to receive upon vesting one common share of the Company. The fair value of these RSUs has been determined based on the quoted market price on the date of issuance of C$15.34 per share. The RSUs vest over a three-year period following the grant date and have no performance requirements. For the three months ended March 31, 2020, the Company recorded $706 (March 31, 2019 – $nil) in share-based compensation expense related to these RSUs.

The following is a summary of the changes in RSUs from January 1, 2020 to March 31, 2020:

	Number of RSUs	Share-based reserve
Balance as of January 1, 2020	732,972	$ 889
Vesting of issued RSUs	—	706
Balance as of March 31, 2020	732,972	$ 1,595

No RSUs were granted or outstanding during three months ended March 31, 2019.

(d) Deferred share units

On August 10, 2019, the Company established a cash-settled deferred share unit plan ("DSU Plan") pursuant to which its non-executive directors receive deferred share units ("DSUs"). The DSU Plan is designed to promote a greater alignment of long-term interests between non-executive directors and shareholders. The number of DSUs granted under the DSU Plan (including fractional DSUs) is determined by dividing the amount of remuneration payable by the closing price as reported by the TSX on the trading day immediately preceding the day of grant. DSUs are payable at the time a non-executive director ceases to hold the office of director for any reason and are settled by a lump-sum cash payment, in accordance with the terms of the DSU Plan, based on the fair value of the DSUs at such time. The fair value of the cash payout is determined by multiplying the number of DSUs vested at the payout date by the closing price as reported by the TSX on the trading day immediately preceding the payout date. The fair value of the cash payout is determined at each reporting date based on the fair value of the Company's common shares at the reporting date and is recorded within other liabilities.

The following is a summary of the changes in DSUs from January 1, 2020 to March 31, 2020:

	Number of DSUs	Financial liability
Balance as of January 1, 2020	33,397	$ 255
Gain on revaluation	—	(50)
Balance as of March 31, 2020	33,397	$ 205

No DSUs were granted or outstanding during the three months ended March 31, 2019.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

16. Earnings (loss) Per Share

Basic and diluted earnings (loss) per share are calculated using the following numerators and denominators:

	For the three months ended March 31, 2020	2019
Basic earnings per share computation		
Net income attributable to common shareholders of Cronos Group	$ 76,040	$ 314,092
Weighted average number of common shares outstanding	348,817,472	218,949,590
Basic earnings per share	$ 0.22	$ 1.43
Diluted earnings per share computation		
Net income used in the computation of basic earnings per share	$ 76,040	$ 314,092
Adjustment for gain on revaluation of derivative liabilities	—	(224,726)
Net income used in the computation of diluted income per share	$ 76,040	$ 89,366
Weighted average number of common shares outstanding used in the computation of basic earnings per share	348,817,472	218,949,590
Dilutive effect of warrants	17,550,444	23,294,663
Dilutive effect of stock options and share appreciation rights	8,473,466	11,351,671
Dilutive effect of restricted share units	732,972	—
Dilutive effect of Altria Warrant	—	17,472,990
Dilutive effect of Top-up Rights – exercised and exercisable fixed price	—	17,661
Weighted average number of common shares for computation of diluted income (loss) per share	375,574,354	271,086,575
Diluted earnings per share	$ 0.20	$ 0.33

The following securities were not included in the computation of diluted shares outstanding because the effect would be anti-dilutive or because conditions for contingently issuable shares were not satisfied at the end of the reporting periods.

	Three months ended March 31, 2020	2019
Ginkgo Equity Milestones	14,674,904	14,674,903
Pre-emptive Rights	12,006,740	12,006,739
Top-up Rights – fixed price	25,111,456	27,730,859
Top-up Rights – market price	1,941,349	—
Altria warrant	77,514,993	—
Stock options	1,729,242	—
Total anti-dilutive securities	132,978,684	54,412,501

17. Related Party Transactions and Balances

On March 8, 2019, in connection with the Altria Investment, Altria Group Inc. ("Altria"), through certain of its wholly owned subsidiaries, purchased a 45% equity interest in the Company. During the three months ended March 31, 2020, the Company incurred $672 (March 31, 2019 – $0) for consulting services from Altria Pinnacle LLC, a subsidiary of Altria ("Altria Pinnacle"). As of March 31, 2020, the accrual for these consulting services was $672 (December 31, 2019 – $1,152).

During 2019, the Company purchased machinery and equipment amounting to $1,258 from a subsidiary of Altria. Refer to Note 19 for additional information.

Refer to Note 11 for further information on the derivative liabilities related to the Altria investment.

There were no other material related party transactions for the three months ended March 31, 2020 and 2019.

18. Segment Information

Segment reporting is prepared on the same basis that the Company's chief operating decision makers (the "CODMs") manage the business, make operating decisions and assess the Company's performance. The Company determined that it has the following two reportable segments: United States and Rest of World. The United States operating segment consists of the manufacture and distribution of hemp-derived CBD infused products. The Rest of World operating segment is involved in the cultivation, manufacture, and marketing of cannabis and cannabis-derived products for the medical and adult-use markets. These two segments represent the geographic regions in which the Company operates and the different product offerings within each geographic region. The results of each segment are regularly reviewed by the CODMs to assess the performance of the segment and make decisions regarding the allocation of resources. The CODMs review operating income (loss) as the measure of segment profit or loss to evaluate performance of and allocate resources for its reportable segments. Operating income (loss) is defined as net revenue less cost of sales and operating expenses.

Reporting by operating segments follows the same accounting policies as those used to prepare the consolidated financial statements. The operating segments are presented in accordance with the same criteria used for internal reporting prepared for the CODMs. Intersegment transactions are recorded at the stated values as agreed to by the segments.

Segment data was as follows for the three months ended March 31, 2020:

	Three months ended March 31, 2020			
	United States	Rest of World	Corporate	Total
Consolidated statements of net income and comprehensive income (loss)				
Net revenue				
Cannabis flower	$ —	$ 2,741	$ —	$ 2,741
Cannabis extracts	2,176	3,400	—	5,576
Other	—	115	—	115
Net revenue	$ 2,176	$ 6,256	$ —	$ 8,432
Equity loss (income)	$ —	$ 1,172	$ —	$ 1,172
Interest revenue	5	7,751	2	7,758
Interest expense	—	(7)	—	(7)
Net interest income	$ 5	$ 7,744	$ 2	$ 7,751
Depreciation and amortization	$ (33)	$ (648)	$ (6)	$ (687)
Income tax (benefit) expense	—	—	—	—
Net income (loss)	(9,805)	92,156	(6,670)	75,681
Consolidated balance sheets				
Total assets	$ 292,723	$ 316,216	$ 1,318,987	$ 1,927,926
Investments in equity accounted investees	—	1,089	—	1,089
Goodwill	213,414	1,275	—	214,689
Purchase of property, plant and equipment, net	180	6,231	—	6,411

Sources of net revenue for the three months ended March 31, 2020 were as follows:

	Three months ended March 31,	
	2020	2019
Cannabis flower	$ 2,741	$ 1,825
Cannabis extracts	5,576	1,103
Other	115	76
Net revenue	$ 8,432	$ 3,004

Net revenue attributed to a geographic region based on the location of the customer were as follows:

	Three months ended March 31,	
	2020	2019
Canada	$ 6,091	$ 2,983
United States	2,176	—
Other countries	165	21
Total	$ 8,432	$ 3,004

Property, plant and equipment assets were physically located in the following geographic regions:

	As of March 31, 2020	As of December 31, 2019
Canada	$ 132,640	$ 141,021
United States	2,251	2,103
Other countries	19,273	18,685
Total	$ 154,164	$ 161,809

The Company sells products through a limited number of major customers. Major customers are defined as customers that each individually accounted for greater than 10% of the Company's revenues and greater than 10% of accounts receivable.

United States

During the three months ended March 31, 2020, the U.S segment had no major customers.

As of March 31, 2020, $107 (December 31, 2019 – $12) in expected credit losses has been recognized on receivables from contracts with customers.

Rest of World

During the three months ended March 31, 2020, the Rest of World segment earned a total net revenue before excise taxes of $4,121 from three major customers, BC Liquor Distribution Branch, Alberta Gaming, Liquor & Cannabis and Ontario Cannabis Store, accounting for 19%, 16% and 14% of the Company's total revenues, respectively (March 31, 2019 – $1,002 from one major customer accounting for 33%).

As of March 31, 2020, $34 (December 31, 2019 – $124) in expected credit losses has been recognized on receivables from contract with customers.

19. Commitments

(a) R&D Commitments

(i) *Ginkgo.* On September 4, 2018, the Company announced a R&D partnership with Ginkgo to develop scalable and consistent production of eight target cannabinoids, including THC, CBD and a variety of other lesser known and rarer cannabinoids. As part of this partnership, Cronos Group has agreed to issue up to 14,674,903 common shares of the Company (aggregate value of approximately $100,000 as of July 17, 2018 assuming all milestones are met, collectively the "Ginkgo Equity Milestones") in tranches and $22,000 in cash subject to Ginkgo's achievement of certain milestones and to fund certain R&D expenses, including foundry access fees.

(ii) *Technion.* On October 15, 2018, the Company announced a sponsored research agreement with the Technion Research and Development Foundation of the Technion – Israel Institute of Technology ("Technion"). Research will be focused on the use of cannabinoids and their role in regulating skin health and skin disorders. The Company has committed to $1,784 of research funding over a period of three years. An additional $4,900 of cash payments will be paid to Technion upon the achievement of certain milestones.

(b) Altria Consulting Services

On February 18, 2019, the Company entered into an agreement with a wholly owned subsidiary of Altria (which agreement was subsequently amended and restated to substitute Altria Pinnacle as a party thereto), to receive strategic advisory and project management services from Altria Pinnacle (the "Services Agreement"). Pursuant to the Services Agreement, the Company will pay Altria Pinnacle a monthly fee equal to the product of one hundred and five percent (105%) and the sum of: (i) all costs directly associated with the services incurred during the monthly period, and (ii) a reasonable and appropriate allocation of indirect costs incurred during the monthly period. The Company will also pay all third-party direct charges incurred during the monthly period in connection with the services, including any reasonable and documented costs, fees and expenses associated with obtaining any consent, license or permit. The Services Agreement will remain in effect until terminated by either party.

(c) Use of Publicity Rights in Brand Development

On December 23, 2019, the Company issued 856,017 restricted common shares to an accredited investor in a private placement ("Private Placement – 2019") in reliance on Section 4(a)(2) of the Securities Act of 1933 in connection with the use of certain publicity rights in brand development. One-third of such common shares vested on January 31, 2020 with the remaining shares vesting in to equal installments on (a) June 23, 2021, and (b) December 23, 2022. The issuance did not involve a public offering and was made without general solicitation or advertising. The total fair value of the consideration paid for the issuance of such common shares was approximately $6,000. The fair value of the shares was calculated using the ten-day volume weighted average price per share of the Company's common shares on Nasdaq.

Additional restricted common shares are issued when certain performance milestones are achieved:

(i) First Performance Issuance: if, prior to December 23, 2022, the product line generates at least $50,000 in net revenue, additional common shares with an aggregate value of $1,000 will be issued.

(ii) Second Performance Issuance: if, prior to December 23, 2022, the product line generates at least $100,000 in net revenue, additional common shares with an aggregate value of $1,000 will be issued (together with the First Performance Issuance noted above).

The number of common shares that would be issued upon achieving the foregoing milestones will be determined based on the ten-day volume weighted average price per share of the Company's common shares on Nasdaq as of the trading day immediately prior to the date of filing with the SEC of the Company's audited year-end financial statements for the first fiscal year during which such milestones are achieved.

(d) Take or Pay

In January 2020, the Company entered into a take or pay supply agreement with a supplier of dried cannabis flower. The Company agreed to purchase a minimum of approximately C$1,734 ($1,290) of dried cannabis flower over 6 months from the date of the agreement and, subject to the supplier's satisfaction of certain conditions and the availability of additional product, potentially up to a maximum of approximately C$4,284 ($3,188) over 6 months from the date of the agreement.

20. Contingencies

The Company is party to a number of lawsuits (and has been threatened with lawsuits arising) in the ordinary course of business and in connection with its marketing, distribution and sale of its products. Although the outcome of these matters cannot be predicted with certainty, management does not believe that resolution of these matters will have a material adverse effect on the Company's consolidated financial condition but may be material to the Company's operating results for any particular reporting period depending, in part, on the results from that period.

(a) U.S Securities Class Action Complaints

On March 11 and 12, 2020, two alleged shareholders of the Company separately filed two putative class action complaints in the U.S. District Court for the Eastern District of New York against the Company and its Chief Executive Officer and Chief Financial Officer alleging violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder against all defendants, and Section 20(a) of the Exchange Act against the individual defendants. The complaints generally allege that certain of the Company's prior public statements about revenues and internal controls were incorrect based on the Company's March 2, 2020, disclosure that the Audit Committee of its Board of Directors was conducting a review of the appropriateness of revenue recognized in connection with certain bulk resin purchases and sales of products through the wholesale channel. The complaints do not quantify a damage request. Defendants have not yet responded to the complaints.

(b) Regulatory Reviews Relating to Restatements

The Company has been responding to requests for information from various regulatory authorities relating to its previously disclosed restatement of its financial statements for the first three quarters of 2019. The Company is responding to all such requests for information and cooperating with all regulatory authorities. The Company cannot predict the outcome of any such regulatory review or investigation and it is possible that one or more formal investigations or proceedings may be commenced against the Company and its current and former officers and directors in connection with these regulatory reviews.

(c) U.S Hemp Business Litigation

On April 8, 2020 a putative class action complaint was filed in the U.S. District Court for the Central District of California against Redwood, alleging violations of California's Unfair Competition Law, False Advertising Law, Consumers Legal Remedies Act, breaches of the California Commercial Code for breach of express warranties and implied warranty of merchantability with respect to Redwood's marketing and sale of U.S. hemp products. The complaint does not quantify a damage request. On April 14, 2020, the class action complaint was dismissed for certain pleading deficiencies and the plaintiff was granted leave until April 24, 2020 to amend the complaint to establish federal subject matter jurisdiction. As of the date of this Quarterly Report, the plaintiff has not refiled the complaint and the complaint has been dismissed without prejudice.

The Company expects litigation and regulatory proceedings in these areas to increase.

21. Financial Instruments

The Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, and market risk (including interest rate risk) and foreign currency risk.

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its operating activities, primarily accounts receivable and other receivables, and its investing activities, including cash held with banks and financial institutions, loan receivable, and advances to joint ventures. The Company's maximum exposure to this risk is equal to the carrying amount of these financial assets, which amounted to $1,420,809 as of March 31, 2020 (December 31, 2019 – $1,586,978).

(i) Accounts receivable

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan, and a failure to make contractual payments for a period of greater than 120 days past due. For the year ended March 31, 2020, the Company recorded a current expected credit loss allowance of $141 (December 31, 2019 – $136). The Company has assessed that there is a concentration of credit risk, as 73% of the Company's accounts receivable were due from 5 customers as of March 31, 2020 (December 31, 2019 – 56% due from two customers) with an established credit history with the Company.

(ii) Cash and cash equivalents, short-term investments, and other receivables

The Company held cash and cash equivalents of $1,128,396 as of March 31, 2020 (December 31, 2019 – $1,199,693). The short-term investments and related interest receivable of $206,230 (December 31, 2019 – $306,347) represents short-term investments with a maturity of less than a year and accrued interest as of period end. The cash and cash equivalents and short-term investments, including guaranteed investment certificates and bankers' acceptances, are held with central banks and financial institutions that are highly rated. In addition to interest receivable, other receivables includes sales taxes receivable from the government. As such, the Company has assessed an insignificant loss allowance on these financial instruments.

(iii) Advances to joint ventures

The Company has assessed the credit risk of these advances based on the financial position of the borrowers, and the regulatory and economic environment of the borrowers. Based on historical information, and adjusted for forward-looking expectations, the Company has assessed an expected credit loss allowance on these advances as of March 31, 2020 of $917 (December 31, 2019 – $nil).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and arises principally from the Company's accounts payable and other liabilities, holdbacks payable, government remittances payable and construction loan payable. The Company's policy is to review liquidity resources and ensure that sufficient funds are available to meet financial obligations as they become due. Further, the Company's management is responsible for ensuring funds exist and are readily accessible to support business opportunities as they arise. The Company's funding is primarily provided in the form of capital raised through the issuance of common shares and warrants. As of March 31, 2020, 17% of the Company's payables were due to one vendor (December 31, 2019 – 42% due to three vendors).

(c) Market risk

Market risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of financial instruments can be affected by changes in interest rates, market and economic conditions, and equity and commodity prices. The Company is exposed to market risk in divesting its investments, such that, unfavorable market conditions could result in dispositions of investments at less than their carrying values. Further, the revaluation of securities classified as fair value through net income, could result in significant write-downs of the Company's investments, which would have an adverse impact on the Company's financial position, unless these would flow through other comprehensive income.

The Company manages market risk by having a portfolio of securities from multiple issuers, such that the Company was not materially exposed to any one issuer.

(d) Currency rate risk

Currency rate risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in foreign exchange rates. The Company is exposed to this risk on advances to joint ventures denominated in A$ and C$. The Company is further exposed to this risk through subsidiaries operating in Israel and the U.S as the Company's functional currency is in Canadian dollars. The Company does not currently use foreign exchange contracts to hedge its exposure to currency rate risk. As such, the Company's financial position and financial results may be adversely affected by the unfavorable fluctuations in currency exchange rates. As of March 31, 2020, the Company had foreign currency gain (loss) on translation of $(113,692) (March 31, 2019 – $3,898). A 10% change in the exchange rates for the U.S dollar would affect the carrying value of net assets by approximately $171,503 as of March 31, 2020 (December 31, 2019 – $174,902).

22. Fair Value Measurement

The Company complies with ASC 820, Fair Value Measurements, for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In general, fair values are determined by:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves.
- Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability.

The following tables present information about the Company's assets that are measured at fair value on a recurring basis as of March 31, 2020 and December 31 2019, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value.

March 31, 2020	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,128,396	$ —	$ —	$ 1,128,396
Short-term investments	206,230	—	—	206,230
Derivative liabilities	—	—	166,176	166,176

December 31, 2019	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,199,693	$ —	$ —	$ 1,199,693
Short-term investments	306,347	—	—	306,347
Derivative liabilities	—	—	297,160	297,160

There were no transfers between categories during the periods presented.

23. Supplementary Cash Flow Information

The net changes in non-cash working capital items are as follow:

	For the three months ended March 31,	
	2020	2019
Accounts receivable	$ 1,234	$ 984
Other receivables	(410)	(3,763)
Prepaids and other assets	(1,684)	(973)
Inventory	(11,270)	(3,737)
Accounts payable and other liabilities	(1,011)	20,845
Cumulative effect from foreign exchange	(2,341)	762
Total	$ (15,482)	$ 14,118

24. Non-monetary Transactions

During the three months ended March 31, 2020, the Company had no non-monetary transactions.

On March 28, 2019, the Company entered into two transactions to simultaneously purchase and sell inventory to a third party. The Company purchased cannabis resin from the third party and in turn sold cannabis dry flower to the third party. The transactions involved the exchange of work in progress inventory and were accounted for at the carrying value of inventory transferred by the Company, which equaled the value of the cannabis resin received. No revenue was recognized as a result of this transaction and no gain or loss was recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

25. Subsequent Events

(a) On April 8, 2020 a putative class action complaint was filed in the U.S. District Court for the Central District of California against Redwood, alleging violations of California's Unfair Competition Law, False Advertising Law, Consumers Legal Remedies Act, breaches of the California Commercial Code for breach of express warranties and implied warranty of merchantability with respect to Redwood's marketing and sale of U.S. hemp products. The complaint does not quantify a damage request. On April 14, 2020, the class action complaint was dismissed for certain pleading deficiencies and the plaintiff was granted leave until April 24, 2020 to amend the complaint to establish federal subject matter jurisdiction. As of the date of this Quarterly Report, the plaintiff has not refiled the complaint and the complaint has been dismissed without prejudice.

(b) In April 2020, Cronos Israel entered into a collaboration agreement with Cannasoul Analytics Ltd. ("Cannasoul") for the establishment of a commercial cannabis analytical testing laboratory located at the premises of Cronos Israel (the "Cannasoul Collaboration"). Pursuant to the Cannasoul Collaboration, Cronos Israel has agreed to advance approximately ILS 8,300 (approximately $2,341) by a non-recourse loan to a subsidiary of Cannasoul over a period of two years for the capital and operating expenditures of the laboratory. The loan will bear simple interest at 3.5%. Cronos Israel will receive 70% of the profits of the laboratory until such time as it has recovered 150% of the amounts advanced to the subsidiary of Cannasoul, after which time it will receive 50% of the laboratory profits.